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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:	)	
	)	
Revision of the Commission's Part 64 Requirements for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers	))))	RM-8354

To: The Commission

REPLY COMMENTS OF PUERTO RICO TELEPHONE COMPANY

Puerto Rico Telephone Company ("PRTC"), by its attorneys, hereby submits its Reply Comments in the above-captioned matter. The United States Telephone Association ("USTA") has proposed that the Commission amend Section 64.903(a) of its Rules to raise the revenue threshold for the requirement that a local exchange carrier ("LEC") file a cost allocation manual ("CAM") from $100 million to $1 billion in annual revenues.[1] This would also result in relieving the affected LECs from the requirement that they obtain an independent audit each year to determine compliance with their CAMs. In its initial Comments, PRTC supported the USTA Petition and urged the Commission to adopt the suggested change.

[1] "United States Telephone Association Files Petition for Rulemaking to Revise the Commission's Part 64 Requirements for the Filing of Cost Allocation Manuals by Certain Local Exchange Carriers," Public Notice, DA 93-1191, October 7, 1993.

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Several parties opposed the proposed change but these oppositions fail to address one fundamental point. Regulatory requirements like the CAM filing and audit requirements may provide benefits but they also impose costs. A regulatory action which imposes costs exceeding its benefits interfers with the achievement of the goals for which regulation was established.

In the Notice of Proposed Rulemaking in which the Commission proposed the CAM filing and audit requirements, the Commission indicated that it was inclined to exempt LECs below a certain size from the requirements because "the costs to the company and to [the] Commission [of the requirements] outweigh the benefits."[2] In exempting LECs with annual operating revenues below $100 million from the CAM filing and audit requirements, the Commission has determined that, while the information it obtains from CAMs and independent audits is valuable, it is not so valuable as to be worth the cost to the Commission and to LECs with less than $100 million in annual revenues.[3] The decision at issue here, to raise the revenue threshold to $1 billion, should be made in the same way. The Commission should weigh the costs of complying with the CAM filing and audit

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[2] Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Notice of Proposed Rulemaking, 104 FCC 2d 59, 109 (1986)("Joint Cost NPRM").

[3] 47 C.F.R. § 64.903(a). See also Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, 2 FCC Rcd 1298, 1304-05 (1987), recon., 2 FCC Rcd 6283 (1987), further recon., 3 FCC Rcd 6701 (1988), aff'd sub nom. Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C. Cir. 1990).

requirements against the public benefit to be gained from the information those activities provide.

The burden on the LECs which would be affected by the proposed rule change and the burden on the Commission caused by the CAM filing and audit requirements is substantial. As PRTC noted in its Comments (p. 3), the cost for PRTC of complying with these requirements is approximately $188,000 a year. In its Comments, Nevada Bell stated that its annual cost of complying with these requirements is approximately $130,000.[4] These amounts do not include the costs which the Commission must incur in reviewing LECs' CAMs, CAM revisions and independent audit reports.

The Commission has developed a variety of regulatory mechanisms which enable it to monitor the activities of the local exchange carriers. These mechanisms include the Uniform System of Accounts, the cost allocation rules, affiliate transaction rules, annual access tariff filings and ARMIS reporting requirements. The Commission has stated that it believes the Uniform System of Accounts, the cost allocation rules, the ARMIS reports, and Commission on-site audits are effective in preventing misallocation of costs and in identifying discrepancies when misallocation occurs.[5] Therefore, while the CAM filing requirement and independent audit requirement may provide further safeguards, it is by no means clear that they provide

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[4] Comments of Nevada Bell at 5.

[5] Computer III Remand Proceedings: Bell Operating Company Safeguards and Tier 1 Local Exchange Company Safeguards, 6 FCC Rcd 7571, 7591-95 (1991).

additional protection sufficient to justify the costs that LECs like PRTC incur in complying with them nor the costs that the Commission incurs in monitoring compliance.

Now the Commission is presented with the decision as to whether the information it obtains from CAMs and independent audits is worth the cost to the Commission and to LECs with annual revenues between $100 million and $1 billion. PRTC believes that the additional information is not worth the cost of producing it and that the revenue threshold for the CAM filing requirement should be raised to $1 billion. PRTC urges the Commission to adopt USTA's proposal and amend its rules accordingly.

Respectfully submitted,

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November 23, 1993

CERTIFICATE OF SERVICE

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